

MICROSOFT

SPECIAL  
POINTS OF  
INTEREST:

- How Will the New Tax Laws Affect You?
- FAQ's
- Key Changes in 2018 Tax Law
- New Tax Planning Strategies
- Why Are S Corporations So Popular?
- Deadlines and Scheduling Info

# The Knightly News

VOLUME 14, ISSUE 1

JANUARY 2019

## No Such Thing As an Easy Button for Taxes!



No doubt, the theme for the 2018 tax filing year is CHANGE.

While I believe that almost everyone will benefit from the new tax laws, I have found it's like learning a new language. There are new definitions to learn, new forms to complete, and new concepts to master. I ask for your patience this year, as I will continue to work hard to educate those who are passionate about learning, but there will be a steep learning curve for us all!

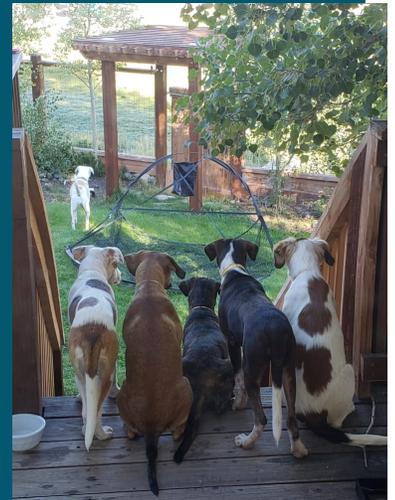


As with any big change, a few years from now we'll look back and wonder why it was so hard, but for now, bring on the Diet Mountain Dew! It's going to take some baby steps to get up and running. The first big change you'll see is in my organizers. I've restructured them to better align with the new tax forms, and hopefully they will help you focus on what's important and what's not, as you organize your personal and business information.

# A Year In Pictures

I'm not sure there's ever been a quiet year in our home, but this year was full speed ahead from day 1! So many people say they enjoyed every stage of their children's lives, but in all honesty, the toddler years were not my favorite! This year, Jacob turned 10 and Ethan turned 8, and I am proud to say they turned the corner to becoming rational little human beings and I'm loving every moment! We all enjoyed good health and great adventures. Rumor has it, I turned 40 this year, and I must say it's treating me well!

Some of our favorite new experiences included travelling to Alaska & Hawaii, and learning new sports including hockey, kayaking, stand up paddleboarding, and backcountry skiing along with the kids. And golf, oh the golf! Such a surprising 1st choice for 2 active young boys, but we play together any and every chance we get! We also developed a new passion: fostering litters of puppies from high kill shelters around the country. Through Animal Rescue of the Rockies, we fostered 3 separate litters, and we are all proud of the work we did to save the lives of 11 puppies (with one lucky girl, Ella, earning her place in our crazy family alongside her much calmer older sister, Phoebe!) During our last foster experience, the boys woke up one morning to Ella having snuck out of her pen and into their beds...her way of letting them know she chose them! Jim and I are grateful the 2 boys, 2 dogs and 2 cats graciously allow us to live in their home, as we are most definitely not in control or even in charge anymore!



## 2018 FREQUENTLY ASKED QUESTIONS:

Q: What is the best way to get my tax documents to Knight Accounting?

A: Email is always best. If you are able to scan your documents into one file and send it via email, it speeds up our processing greatly.

Q: Are prices dropping with the new tax laws and the higher standard deduction?

A: Unfortunately, no. Because the # 1 question I am asked is “will I need to itemize with the new tax law” the first step of any return will be to still enter all the information, including itemized deductions, and see if itemizing is worthwhile, or if you benefit from taking the standardized deduction. Since the bulk of this work is collecting the data and analyzing it, the Schedule A will now be considered for each return and the cost will be included in the standard 1040 cost, not as an add-on form.

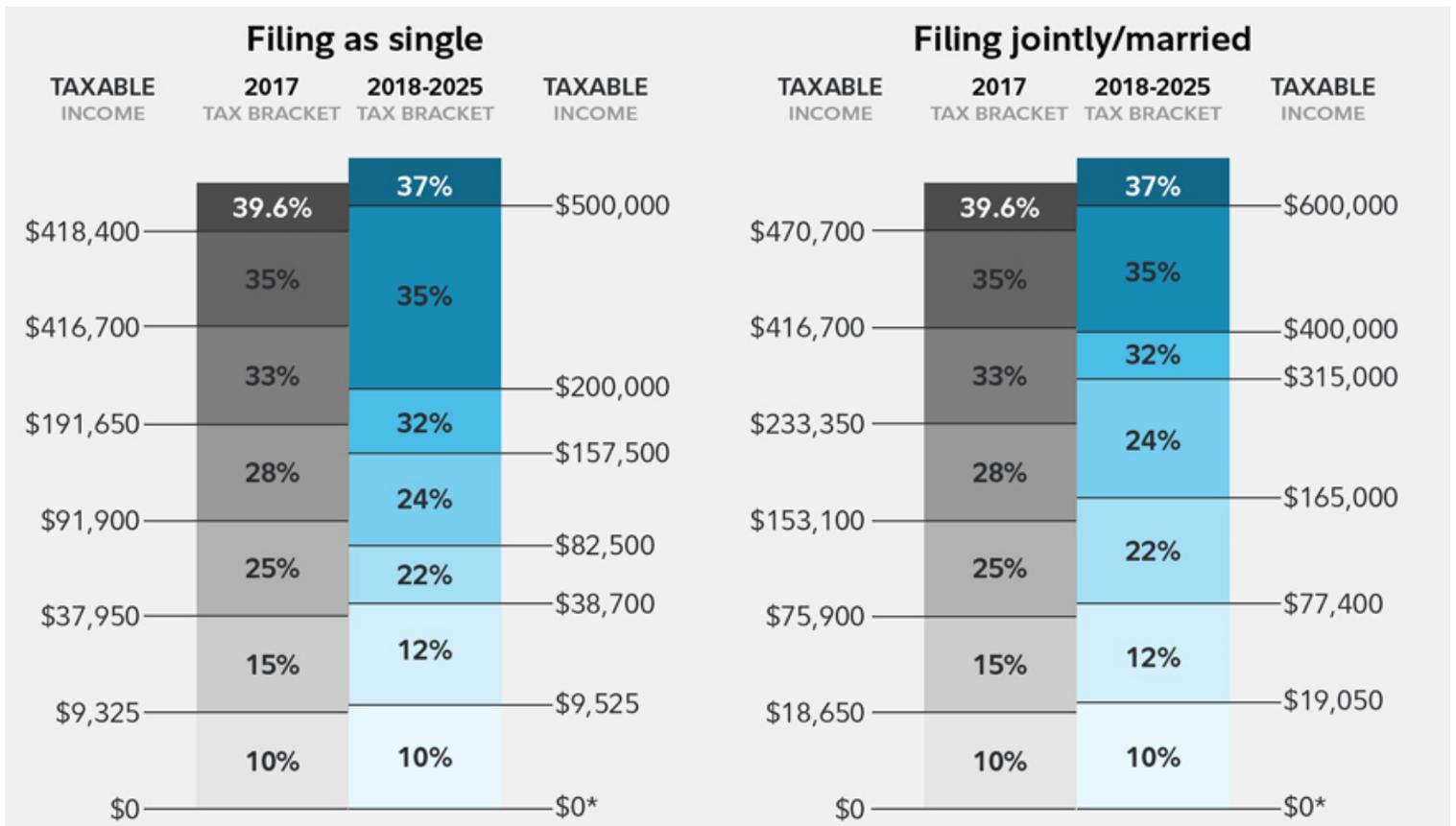
Q: What is the best way to reach Knight Accounting during tax season?

A: Email is always best. I am generally either sitting at my computer or have my phone on silence next to me, so I often glance at the screen and can see emails coming in. While I cannot promise to respond to every email daily, I can generally get to them within 48 hours, whereas sometimes I’m off on adventures with my kids and cannot get to a quiet spot to return phone calls until I’m back in my office. Email also serves as a great written record, so when you email me a question and I provide an answer, it makes it easy for us both to be reminded of the conversation in the future!

## How Will the New Tax Laws Affect You?



If you receive the bulk of your income through a W-2 (and you don't fall into one of the categories in the chart below), then you are likely to break even with prior years or get a little more back. If you fall into the "winning" category below, then you can expect to receive a little more back than in prior years. If you fall into the "less fortunate" or "truly unfortunate" categories, then you can anticipate getting a smaller refund than prior years, or even possible owing.



## Winners & Losers In the New Tax Law

<b>WINNERS</b>	<b>LESS FORTUNATE</b>	<b>TRULY UNFORTUNATE</b>
Taxpayers with children under age 17	Taxpayers with children ages 17-23	Taxpayers with high financial advisory fees that were previously deductible
Sole Proprietorships / Partnerships / S Corporations	Taxpayers with itemized deductions close to \$24K (MFJ) or \$12K (Single)	Taxpayers with high unreimbursed employee expenses (i.e. mileage driven for work, truck drivers, salespeople with out of pocket expenses)
Taxpayers who don't itemize deductions	Taxpayers who pay property or state income tax greater than \$10K	Businesses with high entertainment or dues expenses
Taxpayers who formerly paid AMT	Those who incur moving expenses	C Corporations with \$50K or less profits
Taxpayers who don't have health insurance		

# 2018 TAX LAW KEY CHANGES:

While the 2018 tax law adds hundreds of changes to the tax code, there are a few key ones that will affect individuals & small businesses the most. These are listed below, along with some highlighted tax planning strategies.

## INDIVIDUAL CHANGES:

- Income tax rates have dropped slightly for each tax bracket.
- The standard deduction has increased to \$12K for Singles, \$18K for Head of Household, and \$24K for Married Couples, but the \$4,050 exemption per taxpayer and dependents has been eliminated.
- The combination of state taxes paid + property taxes paid is now limited to \$10K per return.
- Child tax credit has doubled from \$1K to \$2K for each child under age 17.
- Moving expenses are no longer tax deductible.
- AMT limits have increased substantially.

## SMALL BUSINESS CHANGES:

- While meals (food & beverage) are still deductible, entertainment expenses are no longer deductible. This includes golf, sporting events, and concerts.
- Dues paid to a club organized for business, pleasure, recreation or social purpose are no longer deductible.
- Many Sole Proprietors, Partnerships and S Corporation owners can now deduct 20% of their business income from their tax return. BUT, this rule has many limitations and wages often must be paid by the business to take advantage of the deduction. A full assessment should be done in order to maximize benefits before year end.
- The C Corporation tax rate has changed to a flat 21%, which helps C Corps who make more than \$50K. Unfortunately, those making less than \$50K in profits will now be taxed at 21% instead of the previous 0% rate on the first \$50K.

**NEW & IMPROVED TAX PLANNING STRATEGIES:**

- Retirees can make charitable contributions directly from their IRA’s to reduce income, and benefit from the charitable contributions that would otherwise likely not be deductible with the higher standard deductions.
- If tax deductibility is important, those who plan to give more than \$10,000 in charitable donations could give double the amount in one year, and then skip donating the following year.
- S Corporation owners can still deduct their home office expenses, but ONLY if they have a reimbursable plan and pay out the reimbursement before December 31<sup>st</sup> of each year. A Small Business Expense Reimbursement Form is available on the Downloads page on [www.cpamichele.com](http://www.cpamichele.com) if you need assistance with this.
- Sole proprietors and LLC’s may now benefit from S Corporation status if profits reach \$35K. In the past, I recommended that profits reach \$60K before making the change. This is a new recommendation and should be considered prior to year end in order to maximize the benefits.

Tax Filing Status	Previous Standard Deduction (Originally Set to Take Place 2018)	New Standard Deduction (Effective 2018)
Single	\$6,500	\$12,000
Married filing Jointly	\$13,000	\$24,000
Married filing Separately	\$6,500	\$12,000
Head of household	\$9,350	\$18,000

\* Additional deduction of \$1,300 (married)—\$1,600 (single/HOH) for taxpayers who are legally blind or over age 65

**NEW TAX BRACKETS FOR 2018**

RATE	Single Filers	Married Filing Jointly	Head of Household
10%	\$0 - \$9,525	\$0 - \$19,050	\$0 - \$13,600
12%	\$9,526 - \$38,700	\$19,051 - \$77,400	\$13,601 - \$51,800
22%	\$38,701 - \$82,500	\$77,401 - \$165,000	\$51,801 - \$82,500
24%	\$82,501 - \$157,500	\$165,001 - \$315,000	\$82,501 - \$157,500
32%	\$157,501 - \$200,000	\$315,001 - \$400,000	\$157,501 - \$200,000
35%	\$200,001 - \$500,000	\$400,001 - \$600,000	\$200,001 - \$500,000
37%	\$500,001+	\$600,001+	\$500,001+

# WHY ARE S CORPS SO POPULAR?

While attorneys, financial planners and insurance agents may have other answers, from a purely accounting/tax perspective, S Corporations only have one advantage over other types of small business entities, but it's a game change!

When a sole proprietorship, a partnership or an LLC (not designated as an S Corporation) has profits, they flow through to the owners and in most cases, the owners are subject to 15.3% Social Security & Medicare taxes on those profits. With S Corporation status, the owners can generally save Social Security & Medicare tax on about half of that income. It boils down to the following statement, "the tax benefit of an S Corporation is saving 15.3% of 50% of your profits."

Functionally speaking, what happens is that an S Corporation can pay their owners in 2 distinct ways: partially as wages and partially as distributions. Whatever amount they pay themselves as distributions, they can save the 15.3% on, and the IRS has generally agreed that as long as the owner pays themselves a "reasonable wage" that this strategy is sufficient. While reasonable wage can be hard to define, I have always encouraged my client to pay out at least 50% of their profits as wages, and the IRS has never questioned this logic. While other accountants may be more conservative, and others may be less conservative, my method has held up in many audit investigations throughout the years.

Of course, paying wages is more complicated than paying distributions, so this strategy does not come without a cost. Based on average prices in 2019, the annual costs as of 2019 are as follows:

Payroll Processing \$900/year

Add'l Licenses & Unemployment Insurance \$250/year

S Corporation Tax Preparation \$650/year

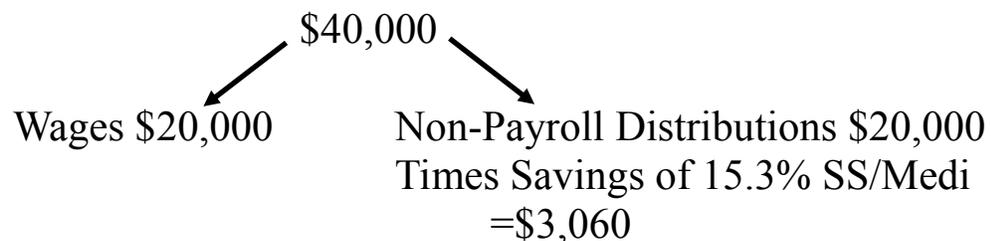
Bookkeeping Services \$1,200/year

**AVERAGE COSTS TO MAINTAIN S CORP: \$3,000**

With average annual costs of \$3,000 in mind, how do you know if it's worth it? From the simplistic tax savings approach defined above, you must save more in taxes than your annual accounting costs increase. Using a (fairly) simple formula:

if 50% of your profits  
times 15.3% SS/Medicare tax savings  
= more than \$3,000, than it's worth it!

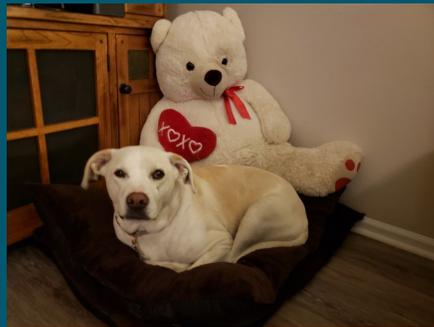
For illustration, let's assume annual profits of \$40,000:

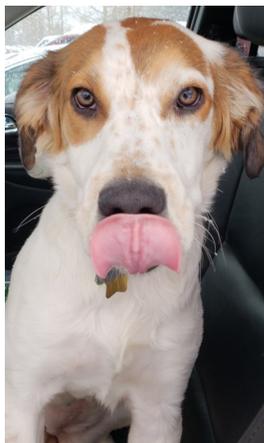
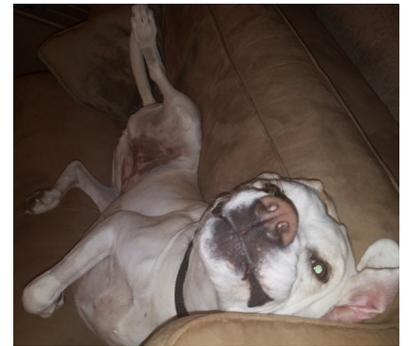


Since the tax savings of \$3,060 is greater than the additional accounting costs of \$3,000, then it makes sense from a financial accounting standpoint to become an S Corporation for a small business whose profits are \$40,000 or greater. Or, if a company is willing to keep their own books or already pays for services like payroll processing or bookkeeping so those costs aren't additional fees, generally I recommend that they will save money if they make at least \$30,000 in profits in a given year.

The steps to become an S Corp are not as simple as this equation, so this is meant to just be a financial test for making the leap, with the most important step being to consult an attorney or CPA to help you get started! But, if you start as an S Corporation when you are making \$40,000 in profits, those tax savings grow as your business grows, and can save significant money in the long run, so the extra work can be very financially worthwhile!

# And more pictures...because puppies and kids are cute!





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**Important Deadlines to Remember:**

**January 18th**—Deadline for submissions for 1099 information to be guaranteed for January 31st tax deadline—for small business owners and rental property owners who hire subcontractors, legal help, or pay rent to non-corporate owners

**February 18th**—Deadline for submissions for Corporate Returns to be guaranteed for March 15th tax deadline (August 15th is final deadline for extended returns data submission)

**March 15th**—Deadline for submission for Individual Returns to be guaranteed for April 15th tax deadline (September 15th is final deadline for extended returns data submission)

**April 5th**—Deadline for extension requests.

PRICING NOTES: While there are no price increases this year, the price of the 1040 will be the same with or without itemized deductions. As a reminder, since 2018, I have added a charge of \$25 for those who do not complete my organizers to cover the additional time it takes me to document their information, and I began billing hourly (\$120/hour) for any tax planning, IRS correspondence, or tax agency audits going forward.



## Scheduling Details

**Denver West** - 14143 Denver West Parkway, Suite 100 (on Denver West Blvd, off I-70)

- Take I-70 to Denver West Exit and head north.
- Turn right at the first light (Denver West Parkway).
- Parking lot is on the left and there is plenty of parking out front.

**Broomfield** 11001 West 120th Ave., Suite 400, Broomfield, CO 80021 (South of Interlocken Loop, North of Airport)

- From Highway 36, exit Broomfield/Lafayette Hwy 287/121.
- Turn left & cross over Hwy 36, Left on Network Parkway 120th Ave.
- Turn Right on Interlocken Loop.
- Turn Left on Network Parkway 120th Ave.
- Turn left at first opportunity between buildings.

**Littleton** 4 Dry Creek Circle, Suite 100, Littleton, CO 80120 (just North of C-470/S. Broadway exit at Dry Creek Blvd and Broadway)

- From C-470, exit S. Broadway.
- Head North on S. Broadway.
- In 1.4 miles, turn West onto W Dry Creek Circle.

Communication Tips: Email and phone are my preferred methods of communication. **Please do not text, message, facetime, linked in, or use any other form of communication...**I simply cannot keep up! I am generally at my desk looking at email all day long, and I check voicemail at least a few times a day...all other methods are overwhelming to me and I do not monitor them. With tax time here, I will be spending a bit more time in appointments and a bit less time in front of my inbox. If you don't hear from me in 48 hours, please resend the email or don't hesitate to call again.

If you want to schedule a face-to-face appointment, we book in 4 different offices: Denver West, Broomfield, Littleton and Summit Cove/Dillon. Please see the schedule below for the available appointments in Denver West, Louisville, and Littleton. Summit County appointments are held at my home office per advanced scheduling.

When requesting an appointment, please email me ([cpa@cpamichele.com](mailto:cpa@cpamichele.com)) a few good dates/times that work for you and I'll respond with a confirmation.

Wednesday, Feb 20th—Denver West

Thursday, Feb 21st—Broomfield

Tuesday, March 5th—Denver West

Wednesday, March 6th—Broomfield

Thursday, March 7th—Littleton

Tuesday, March 19th —Broomfield

Wednesday, March 20th—Broomfield

Thursday, March 21st—Denver West